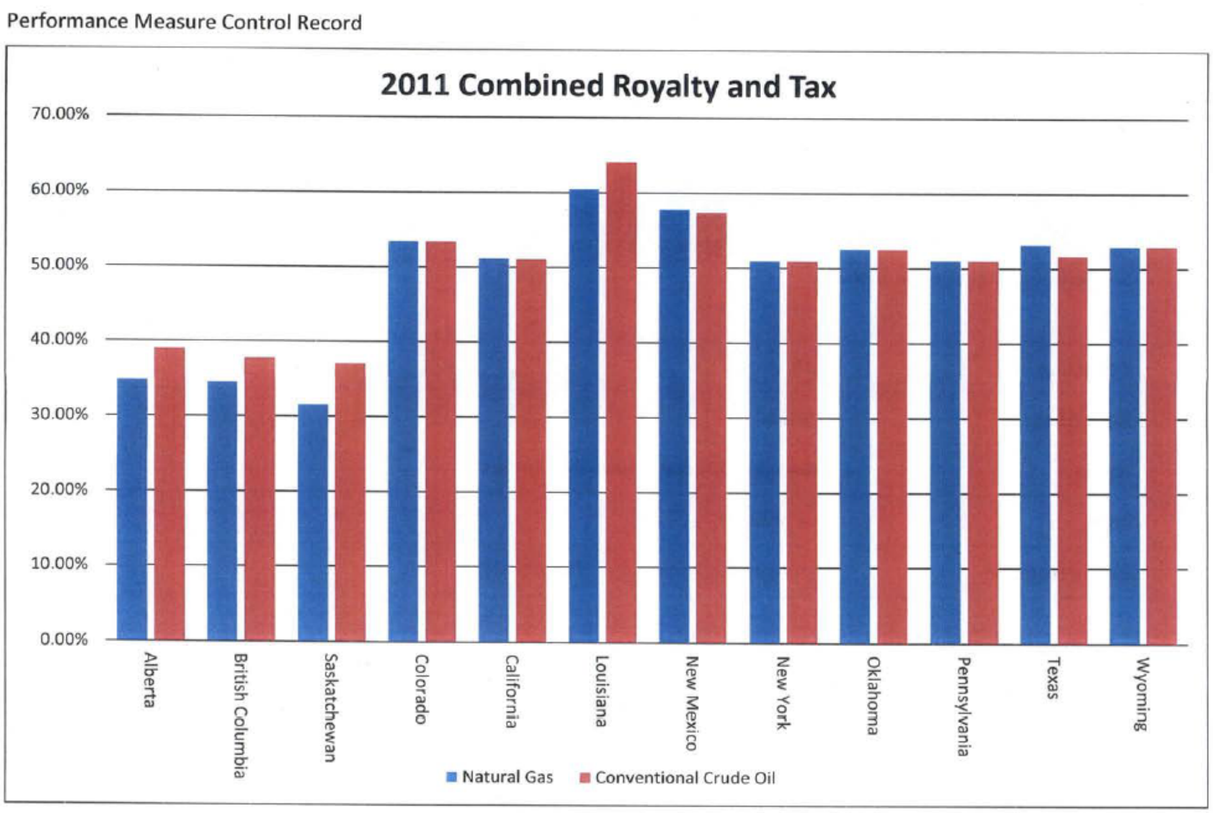
Alberta Federation of Labour

Backgrounder

Conventional Oil and Gas Royalties

Internal government documents obtained by the Alberta Federation of Labour show that Alberta has one of the cheapest conventional oil and gas fiscal regimes in North America.



(Source: *Freedom of Information* request 2012-G-0021, Page 5)

In 2011 – the latest available data – Alberta had combined royalty and tax rates that were *lower* than those in 2007, when the Royalty Review Panel found Albertans weren't receiving their fair share from our non-renewable resources. [1] The Panel recommended the natural gas rate be 49 per cent and the conventional oil rate be 63 per cent.

Alberta Combined Royalty and Tax Measure

	Natural Gas	Conventional Oil
2007 (pre-Royalty Review)[2]	58%	44%
2009	39.73%	43.02%
2010	37.37%	41.34%
2011	34.73%	38.97%

[1] Royalty Review Panel, "Report of the Royalty Review Panel," September 18, 2007, 7
[2] Royalty Review Panel, "Report of the Royalty Review Panel," http://www.albertaroyaltyreview.ca/panel/final_report.pdf

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What is the "Combined Royalty and Tax Measure?"

The Government of Alberta documents obtained by the AFL show the combined tax-royalty rate is meant to show what the public's share of the resource is (emphasis added):

"This measure was chosen as a proxy for government share. The combined royalty and tax rate is a) measureable, b) commonly understood, c) pro-active and timely, d) comparable with other jurisdictions; and e) consistent with other measures of competitiveness."

*"This measure should be treated as an "**early warning" signal** to indicate whether the royalty system requires amendment."*[3]

How does Alberta measure up?

Alberta is winning the royalties race to the bottom. We are giving away our resources at among the cheapest rates in North America.

Every U.S. state has rates of more than 50 per cent.

Alberta, Saskatchewan and British Columbia have rates that are less than 40 per cent.

Of our competitors, Louisiana gets the most out of its non-renewable resources: 60.9 per cent for natural gas and 64 per cent for conventional oil – more than 20 percentage points higher than Alberta.

How did this come to be?

The Alberta government's stated goal is to have one of the cheapest conventional oil and gas regimes in North America: "Alberta will have a combined royalty and tax rate that is in the top quartile of investment opportunities compared to similar jurisdictions."[4]

How much revenue are we losing?

The Alberta Federation of Labour estimates that royalty giveaways since 2009 have cost Albertans at least $4.7 billion.

When the Drilling Stimulus is taken into account, the giveaway spikes to $7.7 billion.

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[3] *Freedom of Information* request 2012-G-0021, Page 1
[4] Government of Alberta, "Budget 2013, Energy: Business Plan 2013-2016 ," http://www.finance.alberta.ca/publications/budget/budget2013/energy.pdf

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Backgrounder

Unconventional royalty breaks caused last year's deficit: confidential government documents

The document, entitled**, "Energizing Investment Phase 2: Royalty Curves and Adjustments,"** was prepared in advance of the government's announcement of reduced royalty rates for unconventional oil and gas, including coal bed methane, shale gas, horizontal drilling.[1]

The government's announcement was on May 27, 2010. The document is dated May 25, 2010.

The document shows that royalty reductions caused the 2012/2013 budget deficit. It shows that the Stelmach government projected a $505 million surplus in 2012/2013, but the royalty reductions pushed the government into a $142 million deficit.

The document forecasted even larger revenue losses in the 2013/2014 and 2014/2015 budget years. This calls to question Premier Redford's assertions that our present-day deficit was unforeseen and entirely due to the so-called bitumen bubble.

In some cases, oil and gas companies can recoup their capital costs in under a year with the royalty breaks, according to the Stelmach government's calculations.

The document notes that Alberta's declining share of the investment in oil and gas pre-dates Stelmach's 2008 royalty increases. "This may be an indication of the "non fiscal" factors (e.g. regulatory) that are pointing to a loss of competitiveness." In other words, royalty breaks were unwarranted.

[1] Government of Alberta, Alberta stimulates new energy investment, new technologies," May 27, 2010, http://alberta.ca/acn/201005/28441DB838B27-0336-BB5C-D5EDFEDE158ED1F6.html

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Excerpts:

1) Impacts on revenue from unconventional royalty breaks

Revenue Impacts from 2010/11 Budget

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$ Millions	2010/11	2011/12	2012/13	2013/14	2014/15
Revised Gas Royalty Curve	0	(1)	(53)	(110)	(278)
Revised Oil Royalty Curve	22	41	(18)	(71)	(142)
Deep Gas Change	0	(228)	(233)	(245)	(272)
Coal Bed Methane	0	(6)	(18)	(14)	(84)
Horizontal Gas	0	(24)	(21)	(22)	(25)
Horizontal Oil	0	(25)	(25)	(30)	(33)
Total	22	(243)	(368)	(492)	(834)

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2) Royalty reductions caused last year's budget deficit

Impact of March 11 and May 27 Changes

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	2010/11	2011/12	2012/13
Royalty Revenue Impact of March 11 Changes	(27)	(16)	(785)
Royalty Revenue Impact of May 27 Changes	22	(243)	(368)
Forecasted Offsetting Activity			
Impact of Activity Increase		49	131
Impact of Higher Land Sales	55	76	143
Economic Impact	31	148	232
Net Fiscal Impact to Budget	81	14	(647)
Budget 2010 estimated surplus/deficit	(4,748)	(1,135)	505
Adjusted budget surplus/deficit	(4,667)	(1,121)	(142)

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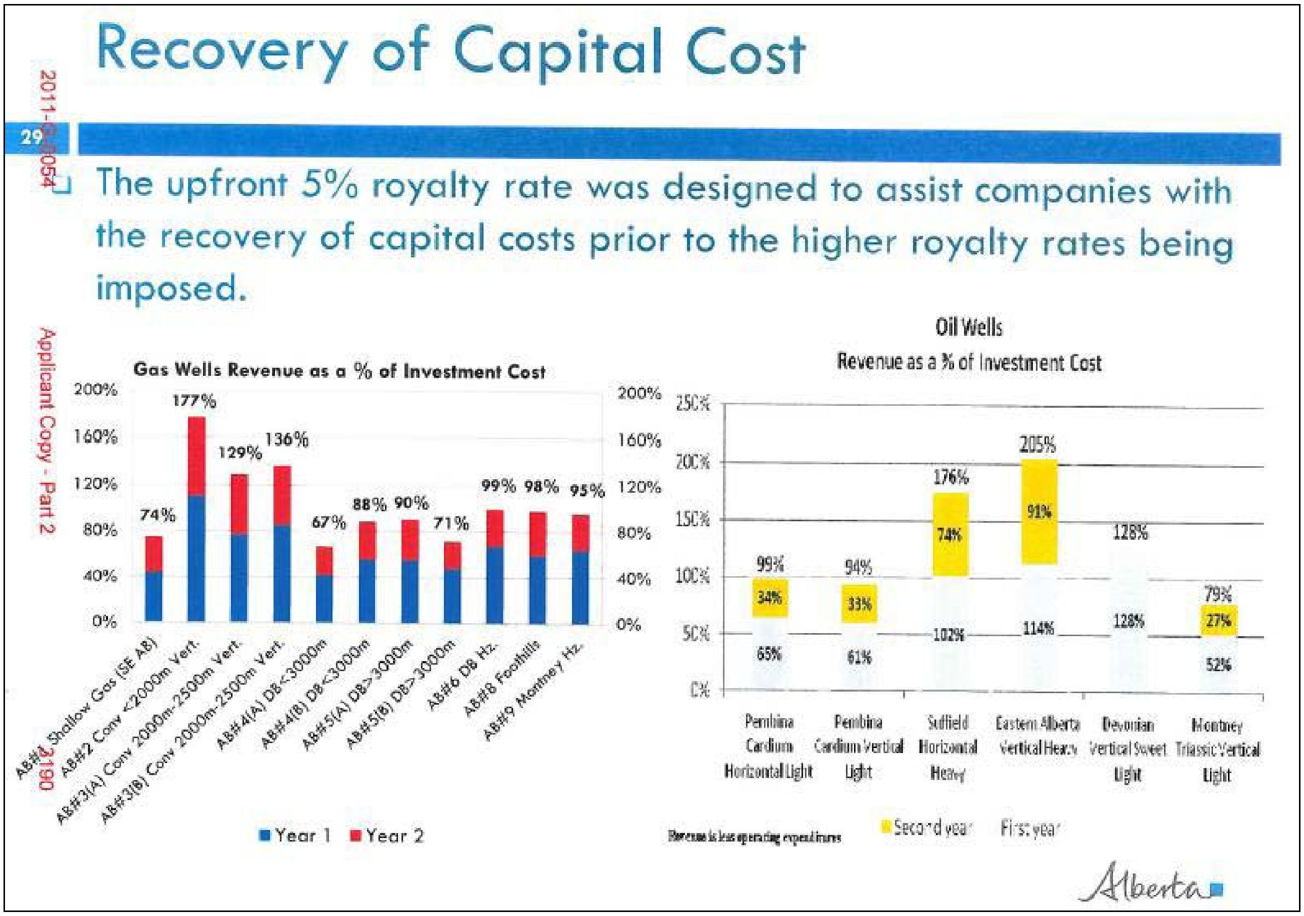
3) Some companies can recoup their capital costs in under a year, according to the Stelmach government's calculations



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